

**STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF TARGETED FINANCIAL EXAMINATION
OF**

**ASSOCIATED AMERICAN MUTUAL LIFE INSURANCE COMPANY
OF**

SALT LAKE CITY, UTAH

**AS OF
DECEMBER 31, 2003**



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February 10, 2004

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 74114

In accordance with your instructions and in compliance with Utah Code Annotated (UCA) Title 31A, a target examination was conducted as of December 31, 2003, of

ASSOCIATED AMERICAN MUTUAL LIFE INSURANCE COMPANY
Of
Salt Lake City, Utah

a mutual life insurance company and a voluntary employee benefit association, hereinafter referred to as the Company.

The current target examination is as of December 31, 2003. The date of the last full-scope financial examination of the Company was as of December 31, 2001. This examination is limited in scope and this examination report is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

SCOPE OF EXAMINATION

The purpose and scope of this examination is to come to a reasonable assurance that the Company does not have any outstanding liabilities currently and that it has set aside sufficient funds to deal with any liabilities that may arise within three years of its dissolution (three years is the period of time in which claims can still be raised against the Company). It should also be noted that the main focus of the examination revolved around possible claim liabilities.

EXAMINATION FINDINGS

The examination did not find any indication of outstanding general liabilities. There is however one disability claim that is pending and the claimant is expected to prevail. There is also one life claim that is owed to a minor believed to reside in a foreign country. The Company has committed itself to paying for these claims out of surplus instead of the escrow accounts discussed below.

It is necessary for the Company to satisfy its life and disability contract obligations in conjunction with its anticipated dissolution. The following actions have been taken to address those obligations.

With life, and with accidental death and dismemberment (AD&D) insurance, 100% of the excess of the Company's \$150,000 retention was assumed by Beneficial Life Insurance Company.

As of April 1, 2002, the life and AD&D policies with the Company were terminated by the policyholder in connection with the issuance of a new policy by Metropolitan Life Insurance Company. As of May 1, 2002, disability policies with the Company were terminated by the policyholder in conjunction with the issuance of a new policy issued by the Hartford Life Insurance Company. As of July 14, 2003 an agreement was signed between the Company and Metropolitan to service all those specifically identified as having been disabled prior to May 1, 2002. This agreement between Metropolitan and the Company did not include any IBNR.

According to the policy guidelines, notice of death claims must be given within thirty (30) days of the date of death unless a legitimate reason for delay can be provided. Notice of a disability claim must be given to the Company within ninety (90) days from the commencement of the total disability. Benefits are not payable unless the insured was actively at work at the time the injury or sickness caused the disability.

The Company's ordinary risk for life IBNR claims ceased May 1, 2002 (April 1, 2002 plus thirty (30) days), and for disability IBNR claims July 31, 2002 (May 1, 2002 plus ninety (90) days). However, the Company has retained extraordinary risk for claims that have not been properly closed.

The Company has established two escrow accounts to deal with the possibility of future claims being raised after dissolution. One escrow account will have \$400,000 in it. Its chief purpose is to cover any claims that Metropolitan Life Insurance Company may have against the Company. A \$200,000 portion of this account, less any claims, will be transferred to the Company at the end of the first and second years. This account is under the joint control of Metropolitan and the Company. The second escrow account will have \$200,000. Its purpose is to deal with any liabilities of the Company that arise subsequent to dissolution. It also is under the joint control of Metropolitan and the Company.

COMPANY'S FINANCIAL STATUS

The following balance sheet is as of December 31, 2003 and was provided by the Company except where noted.

		Notes
Assets		
Cash	\$ 157,513	
Bonds	1,406,161	
Reinsurance Receivable	100,000	
Interest/Dividends Receivable	1,271	
Total Assets	\$ 1,664,945	
Liabilities, Capital and Surplus		
Life Claims	\$ 150,000	(1)
Disability Claims	247,128	(2)
Miscellaneous Liabilities	993	
Total Liabilities	\$ 398,121	
Capital and Surplus	\$ 1,266,824	
Total Liabilities, Capital and Surplus	\$ 1,664,945	

Notes:

(1) The Company reported a liability of \$275,000 but failed to take into account its reinsurance coverage with Beneficial Life Insurance Company. Therefore, it was reduced by the examination to \$150,000.

(2) This represents a worst-case scenario for the one disability claim that is pending and will probably be approved by the Company. While the claim amount has not been determined by the Company, it has the potential to be less.

RECOMMENDATIONS

In summary, except as noted below, the Company has adequately managed its exposure to possible disability and life claims.

It is recommended that the \$200,000 escrow account that will be established by the Company and is discussed above be increased by an additional \$200,000 to address future potential claims. This increase should be a condition of approving the dissolution of the Company. The reasons for this are as follows:

(1) The other \$400,000 escrow account is not available to the Company for one to two years. Even then, this escrow account may be reduced or depleted by claims from Metropolitan Life Insurance Company.

(2) A \$200,000 escrow account could not handle a large unexpected disability claim. In the case of a large claim, there would also be little or no money for any additional claims. This is not to say there is an imminent threat of such a claim(s).

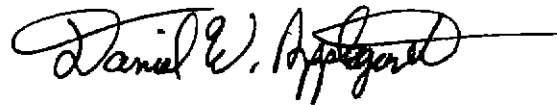
Rather, that it is possible for disability claims that have not been properly closed by the Company to still be raised.

(3) Claims are still being raised against the Company. Since the commencement of this examination the Company has been processing four claims in various stages of completion—two of which were raised after the examination started. However, it should be noted that only one of these claims is expected to prevail.

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged.

Respectfully submitted,

A handwritten signature in black ink, reading "Daniel W. Applegarth", followed by a horizontal line extending to the right.

Daniel W. Applegarth, CFE
Examiner-in-Charge
Utah Insurance Department